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OUTLOOK

Chamber of Commerce of the United States November 1984

INDUSTRIAL OUTLOOK EXCELLENT, BUT FIRST A WARNING...

by
Richard W. Rahn and Ronald D. Utt

This issue of the our publication is devoted to the Chamber's annual industrial outlook, a comprehensive analysis of the current state of U. S. industry. Focusing on mining, construction and each of the major manufacturing sectors, the Chamber's industrial outlook provides details on how the recovery has improved conditions in each of the key industries, what problems remain and how these sectors are likely to perform over the next several years.

While our prognosis for the future of American industry is excellent, we are again troubled by the recent course of Federal Reserve monetary policy and the implications this could have on our prospects of achieving the high growth path that we believe is within easy reach. Because we view these recent monetary trends with some concern, we would like to devote the remainder of this introductory article to a brief discussion of these trends and how they relate to the high growth scenario.

Our lead article in the last issue of the ECONOMIC OUTLOOK, "Masters of Our Destiny? Why Sustained Rapid Economic Growth is Possible," generated more comment than any other article to appear in this publication. In the few weeks following its release, several major newspapers and magazines, including *Newsweek, The New York Times, Bond Week, The Christian Science Monitor,* and *The New York Post,* published stories based on our growth scenario. With the reelection of President Reagan and the mandate to continue his policies of economic growth and opportunity, this country has moved closer to accepting this agenda as the key objective for the next Administration and Congress.

As we noted in that article, a stable monetary policy conducive to noninflationary economic growth is a key component of a high growth agenda. But as we review the Federal Reserve's action over the past several months, it appears as if we may be in the grips of a major tightening action by the central bank. Indeed, we have to go back to 1981 and 1982 to find instances of comparable restraint. In those years, the Fed's anti-inflationary zeal helped sink the economy into the worst recession of the postwar era. And unless the Fed eases up, and does so quickly, we run the risk of experiencing a similar outcome in the near future.

Just how restrictive this recent policy has been can be readily seen from the trends in the money supply and the monetary base (the raw material from which the money supply evolves and the component that the Fed can directly influence), since early summer. Since June, there has been virtually no growth in the money supply, as measured by M1, or the monetary base. During the first four weeks of October, M1 averaged $546.4 billion compared to an average of $546.1 billion during the first four weeks of June. Thus, there has been virtually no growth in the money supply over the past four months, suggesting a degree of restraint that could contribute to economic decline if allowed to continue much longer.

Some might argue that this trend is not indicative of deliberate Fed efforts at restraint because deregulation of deposits has made M1 a less meaningful measure of

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monetary policy and credit conditions. While this might be true under some circumstances, it does not appear to be the case at present because the monetary base, a variable that the Fed can more easily and precisely control, exhibits a similar pattern of slow growth. While it has grown at a somewhat higher rate over the period, its recent growth is still well below trend.

To us, these trends support the concerns we first raised in the March/April 1984 issue of the ECONOMIC OUTLOOK ("Monetary Reform: A Proposal For Bringing the Price and Quantity Rules Together") when we noted that current Fed operating procedures had become highly discretionary and led to erratic swings in monetary growth. Judgment has replaced rules as the Fed attempts to manage the economy on a short run basis in order to achieve economic growth rates consistent with its own notion of what rates were acceptable and what ones were not. As the minutes from the March 1984 Federal Open Market Committee meeting later revealed, the Fed then believed that the economy was growing too fast and that the proper policy objective would be one of restraint. As the trend in the monetary aggregates since early summer now demonstrates, this course is, apparently, the one they pursued.

Although the minutes of the July meeting of the Federal Open Market Committee show less of a concern for too rapid economic growth, it is clear from the summary that such concerns lingered and that the members were wary of deviations on the up side for both economic and monetary growth. In consideration of this possibility, they moved the Federal funds rate range up a notch.

What then seems to have transpired is an illustration of the classic problem associated with undue emphasis on interest rate targets as an operating guide to monetary policy. With the economy slowing at a faster rate than expected and with the Fed prepared to follow higher Fed funds interest rate guidelines, growth in the money supply was restrained beyond that which was anticipated as market interest rates fell below their expected level.

Interest rates, which leveled off on a high plateau over the summer months, have fallen precipitously in September and October. To the casual observer, this has been misinterpreted as a sign of a more accommodative monetary policy. It is not. If anything, the decline in interest rates reflects the financial market's recognition that we are in a period of slow economic growth and reduced credit demands. Related to this is the possibility that the interest rate decline might also reflect renewed confidence in the Fed's steadfast commitment against inflation. If this is the case, then the recent trend in monetary restraint may very well have served to eliminate some or all of the excessive risk premium that has kept interest rates at unusually high levels for the past year. As a consequence, the Fed's recent policy could set the stage for a renewed surge in economic growth in 1985. Such an outcome, however, will require that the Fed ease up within the next month or two.

Although the degree of restraint has been severe, it is not too late to alter the path by allowing the money supply to grow at rates conducive to the rapid, noninflationary economic growth that we have been forecasting for 1985. Inasmuch as Fed policy may now be guided by trends in the real economy, the recent reports indicating some measure of economic deterioration will likely induce the Fed to ease its policy by allowing the money supply to grow at rates within the Fed's target range.

However, we must recognize that the past four months of monetary restraint will likely serve to depress our prospects for economic growth during at least the fourth quarter of 1984 and possibly through the first month or two of 1985. How quickly the economy returns to the 4.5 to 5.5 percent growth path depends upon how quickly the Fed abandons its current policy of restraint. Aside from the temporary but unnecessary hardship that such a policy imposes on certain sectors of our economy, the real danger from this policy comes from the impact the potential stagnation might have upon next year's Congressional deliberations on tax and spending policy. To the extent that growth is unduly depressed, it will be that much more difficult to convince Congress to choose growth over taxes as the only proper policy to reduce the deficit.

In the next several issues of the ECONOMIC OUTLOOK we intend to devote most of our articles to an in-depth discussion of the policies that we believe must be enacted in 1985 to ensure that the high growth objective becomes a reality. These will include detailed articles on tax reform and new tax incentives for growth, our plan for restraining federal spending growth, the need for a stable monetary policy, further deregulation of business and an aggressive program of privatization that would allow the private sector to assume responsibilities now fulfilled, expensively and inefficiently, by government. For now, we turn your attention to the industrial outlook by Rajni Bonnie Ohri and Graciela Testa-Ortiz.

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TABLE 1

UNITED STATES ECONOMIC OUTLOOK 1983-1986
Prepared by the U.S. Chamber of Commerce

Percent change from previous period at seasonally adjusted annual rates unless otherwise noted.

	QUARTERS									YEARS			
	Actual		Forecast							Actual	Forecast		
	84:2	84:3	84:4	85:1	85:2	85:3	85:4	86:1	86:2	1983	1984	1985	1986
GROSS NATIONAL PRODUCT													
Real GNP	7.1	2.7	3.6	4.1	5.0	5.2	5.3	5.1	5.1	3.7	6.9	4.4	5.0
Consumption	7.9	0.2	4.4	3.5	5.1	4.0	4.2	3.7	3.6	4.8	5.3	3.9	3.8
Residential Investment	1.3	2.7	0.9	16.1	6.4	10.3	8.8	7.2	2.6	41.7	13.5	7.2	5.3
Business Fixed Investment	21.4	7.9	11.0	9.8	14.2	10.7	9.9	10.4	10.8	2.5	19.2	11.4	10.8
Equipment	21.2	10.5	12.4	10.5	14.8	11.1	9.9	10.2	10.6	7.3	20.9	12.3	10.7
Structures	21.3	1.8	7.4	8.1	12.7	9.6	9.9	10.9	11.3	-7.8	14.9	9.1	10.8
Exports	-0.6	16.1	11.7	8.1	9.1	10.4	11.2	11.5	13.1	-5.6	6.5	9.8	11.6
Imports	8.1	49.8	11.0	7.2	7.8	6.6	4.1	3.1	2.5	7.6	30.0	12.2	3.8
Government Purchases	18.6	8.6	5.6	2.8	3.0	2.8	1.3	1.0	1.2	-0.3	3.9	4.9	1.4
Inventory Change ($ B)	50.6	72.4	60.1	56.4	48.4	50.0	51.7	53.9	55.0	-13.5	64.2	51.6	54.7
New Car Sales (mil. units)	10.7	10.3	11.0	11.0	11.0	11.1	11.3	11.5	11.6	9.2	10.6	11.1	11.6
Housing Starts (mil. units)	1.9	1.7	1.7	1.8	1.8	1.9	1.9	2.0	1.9	1.7	1.8	1.8	1.9
EMPLOYMENT, WAGES AND PRICES													
Unemployment Rate (%)	7.5	7.5	7.3	7.2	7.0	6.8	6.6	6.4	6.2	9.6	7.5	6.9	6.2
Compensation	3.7	3.4	4.6	6.2	5.5	5.8	6.6	7.5	7.0	4.8	4.2	5.2	6.8
Productivity	4.6	2.3	4.5	3.5	2.1	2.9	3.4	4.0	3.1	3.4	3.2	3.2	3.2
Unit Labor Costs	-0.8	0.8	0.1	2.6	3.3	2.9	3.1	3.3	3.8	1.3	1.0	1.9	3.6
Consumer Prices	3.7	3.6	3.7	3.3	3.6	3.8	3.4	4.1	4.4	3.2	4.2	3.6	4.0
GNP Deflator	3.3	3.6	3.7	3.7	2.8	2.8	3.9	4.0	4.6	3.8	3.8	3.4	4.1
Prime Interest Rate (%)	12.3	13.0	11.5	10.8	10.2	10.0	9.5	9.3	9.0	10.8	12.0	10.1	9.1
Profits from Current Production ($72B)*	195.2	203.4	207.4	209.3	214.5	222.2	232.5	230.6	233.9	149.4	197.7	219.6	235.1
GOVERNMENT FISCAL POLICY ($BILLION)**													
Unified Budget—Receipts										601	666	759	842
Unified Budget—Outlays										796	842	920	975
Unified Budget—Federal Surplus or Deficit										-195	-175	-161	-133

* Corporate profits after tax with inventory valuation and capital consumption adjustments.

**Unified Budget figures on a fiscal year basis.

Source: Modeling and assumptions by U.S. Chamber of Commerce, Forecast Center using the DRI macro model of the U.S. economy.

FORECAST ASSUMPTIONS

This month's forecast adopts all the provisions of previously enacted legislation, including indexation of personal income tax rates and the recently passed Deficit Reduction Act of 1984. No additional fiscal policy changes are assumed.

THE U.S. INDUSTRIAL OUTLOOK

by
Rajni Bonnie Ohri and Graciela Testa-Ortiz

Although the data clearly show that the 1981 changes in the tax law played a major role in laying the groundwork for a return to a period of long-term economic prosperity, much continues to be said about the unevenness of the recovery across industries. This perception persists in spite of the unprecedented surge in business investment and job creation, which have been amply documented during the past few months. This paper studies several issues relating to industrial performance. First, we look at the long term decline of the manufacturing sector as a source of employment, and the implications of that decline for the future of our economy. Second, we examine the pattern of cyclical recovery in the major indicators of industrial activity. Third, we focus on two major factor affecting the nation's industries—the explosion in new technology and import competition. Finally, the fourth section provides a detailed analysis of industrial conditions and prospects.

THE SHIFT AWAY FROM MANUFACTURING

In spite of the success of this expansion in creating new jobs, an analysis of industrial employment data points to a definite slide in manufacturing employment which has caused concern in public policy circles. Total nonfarm employment rose at an average annual rate of 1.9 percent between 1976 and 1983, but manufacturing employment fell by 0.4 percent each year. At the same time, employment in the services industries rose an impressive five percent per annum. The decline in the rate of growth in manufacturing employment has been pervasive, including virtually every manufacturing industry, with the notable exception of electrical machinery and instruments (see Table 1).

However, this trend is not a recent phenomenon. The percentage of total employment created in the manufacturing sector has been falling steadily since the 1950s (see Chart 1). While manufacturing employment accounted for 32 percent of total employment in 1950, the ratio has fallen to 21 percent today. Nor is it unique to the United States. Several of the major industrialized nations have experienced a phenomenon similar to ours. Taking the seven largest OECD nations together (the U.S., Japan, West Germany, France, the United Kingdom, Italy, and Canada) we note that the percentage of civilian employment in the manufacturing sector fell from 27 percent in 1960 to 24.6 percent in 1981. The decline in Canada was similar to that in the United States, dropping from 24.6 percent in 1960 to 21 percent in 1981; while it was even more pronounced in the United Kingdom, falling from 38 percent in 1960 to 28 percent in 1981.

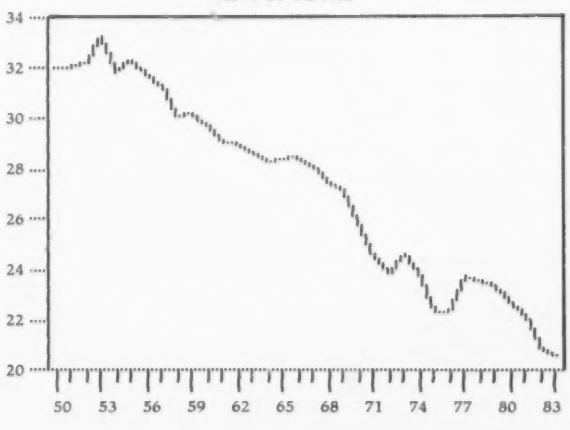
TABLE 1
INDICATORS OF INDUSTRIAL ACTIVITY
(annual average percent change, 1976 to 1983)

	Employment	Output[1]	Productivity[2]
Nonfarm, total	1.9	2.6	0.8
Manufacturing	-0.4	1.7	2.1
Nondurables	-0.4	1.7	2.1
Food and Kindred Products	-0.6	1.2	1.4
Tobacco	-1.3	-3.5	-0.2
Textiles	-2.7	2.3	2.6
Apparel	-1.7	1.5	0.9
Paper & Products	-0.3	2.4	0.8
Printing & Publishing	2.6	3.2	-0.1
Chemicals	0.1	2.1	1.0
Petroleum	-0.3	-0.5	-1.2
Rubber & Plastics	1.7	4.3	0.4
Leather & Products	-3.0	-2.6	0.2
Durables	-0.4	1.6	2.1
Lumber & Wood Products	-0.5	-0.1	0.3
Furniture & Fixtures	0.1	2.4	0.2
Stone, Clay & Glass	-1.6	-0.7	-0.4
Primary Metals	-3.9	-3.2	0.5
Fabricated Metals	-1.3	1.2	-0.5
Nonelectrical Machinery	-0.2	2.5	2.9
Electrical Machinery	2.0	8.3	4.3
Transportation Equipment	-0.3	-0.7	-2.9
Instruments	3.0	5.5	3.2
Miscellaneous	-1.9	0.3	0.6
Mining	3.2	10.1	NA
Construction	1.4	-4.9	NA

[1]Output represents constant dollar gross domestic product in each industry.

[2]Output per employee hour. Data for individual industries available through 1981 only.

CHART 1
MANUFACTURING EMPLOYMENT AS % OF TOTAL



This outcome, however, should not come as a surprise, nor as a cause for concern. The British economist, Colin Clark, noted 30 years ago that market economies tend to pass through three, readily identifiable stages of economic development. Underdeveloped economies, what he called primary economies, are characterized by their dependence on agriculture and raw materials as a major source of employment. The second stage of development, he noted, was a stronger dependence on the manufacturing sector. While in a developed, or tertiary, economy the service sector is the major source of jobs. This industrial shift is a logical consequence of economic progress, reflecting improvements in productivity and national income.

As incomes rise the pattern of consumer behavior shifts from an emphasis on purchases of consumer durables to a rising use of services, including cultural, educational and household services which raise the quality of life and make it possible for people to enjoy a greater amount of leisure. While these shifts in consumption patterns follow increases in income, they are also made possible as a result of innovations which increase efficiency and productivity in each sector. For instance, with the advent of farm machinery, agricultural productivity rose sharply and it became possible to produce significantly larger farm yields with a reduced number of farm workers. Similarly, technological innovation in the field of computers, telecommunications, and robotics has made it possible to increase manufacturing production and distribution, and to reduce the number of workers needed in the assembly line. Another factor which intensifies this effect is the rising age of the American population which increases the demand for services such as medical care.

Given these considerations, the decline in the importance of the manufacturing sector should not be seen as a negative development. It is, rather, a reflection of economic progress. If we were to note that not only employment, but also output and productivity were suffering such a long term decline, then we would certainly have cause for concern. However, as Table 1 also shows, both output and productivity have continued to rise strongly.

This underlying trend in manufacturing employment, however, has not prevented the nation's industries from participating in the 1983 recovery and the current economic expansion. In fact, the data for the first six quarters of this upturn show that, far from stagnating, the manufacturing sector is growing apace with, and in some cases faster than, the overall economy. Manufacturing continues to be a vibrant sector of the American economy, whose prospects have been enhanced, as we shall see, by the surge in new technology of the past few years.

THE 1983 RECOVERY: INDUSTRY EXPERIENCE

Gilt-edged is one way to describe the comeback of many major industries. Output, industrial production, plant and equipment expenditures, employment, profits, and productivity have all increased significantly since the end of the recession.

This solid upswing in industrial performance, particularly manufacturing, reflects the fundamental changes occurring in the U.S. economy as a result of the 1981 tax legislation. In spite of the massive tax increase enacted in 1982, the Accelerated Capital Recovery System (ACRS), which was an integral part of the 1981 tax legislation, went a long way towards reducing the cost of capital and spurring business investment and productivity, yielding the strongest investment recovery on record. Obviously, had the Tax Equity and Fiscal Responsibility Act (TEFRA), which rescinded a large portion of the 1981 tax relief, not been enacted in 1982, the recovery would have been all that much stronger.

Plant modernization and new product development programs have been a logical focus of the rise in plant and equipment expenditures, placing American industries on a stronger competitive footing. Intense foreign competition has spurred U.S. industries to down-size and otherwise improve its product lines through record high levels of capital spending.

Output and Industrial Production

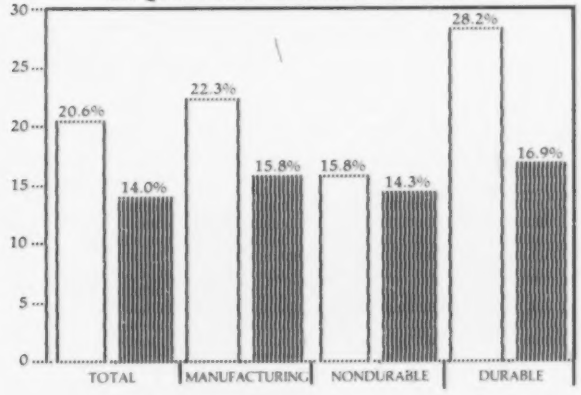
Manufacturing sector output (gross domestic product), which rose at an average annual rate of 1.7 percent between 1976 and 1983, fell by 6.4 percent in 1982 as a result of the recession-induced falloff in demand, but rebounded by 5.2 percent during 1983 as the recovery gathered strength. Within the manufacturing sector, several industries, in particular those related to the housing and automobile sectors, posted significantly higher increases in output. Output in the lumber, furniture, and stone, clay and glass industries rose by almost twelve percent in 1983, after suffering significantly larger than average declines in 1982. The rubber and plastics, electrical machinery, chemicals, paper, textiles and fabricated metals industries also enjoyed substantial improvements. Nor was this improvement limited to the manufacturing sector. With the exception of mining, the nonmanufacturing sectors also enjoyed cyclical recoveries in line with the experience of the 1976-1983 period (see Table 2).

Similarly, total industrial production rose by 20.6 percent since the end of the recession, compared to an average rate of growth of only 14 percent during

TABLE 2
REAL GROSS DOMESTIC PRODUCT
(year-over-year percent change)

	1982	1983
Nonfarm, total	-2.0	3.8
Manufacturing	-6.4	5.2
Nondurables	-2.6	4.5
Food and Kindred Products	2.0	-1.6
Tobacco	-0.4	-10.1
Textiles	-4.6	9.8
Apparel	-7.3	7.3
Paper & Products	-2.0	13.1
Printing & Publishing	0.2	4.7
Chemicals	-5.7	6.6
Petroleum	-4.4	-1.5
Rubber & Plastics	-5.0	9.6
Leather & Products	-3.7	-1.7
Durables	-9.0	5.7
Lumber & Wood Products	-6.9	11.9
Furniture & Fixtures	-10.3	11.6
Stone, Clay & Glass	-11.3	11.5
Primary Metals	-28.2	4.6
Fabricated Metals	-9.7	6.5
Nonelectrical Machinery	-9.2	-4.1
Electrical Machinery	-2.0	5.5
Transportation Equipment	-8.8	17.1
Instruments	3.5	0.6
Miscellaneous	-10.8	-0.2
Mining	-4.0	-2.7
Construction	-2.4	2.7

CHART 2
COMPARISON OF THE GROWTH OF INDUSTRIAL PRODUCTION IN THE FIRST SIX QUARTERS OF ECONOMIC EXPANSION



OUTLINE = CURRENT RECOVERY
SOLID = AVERAGE PAST 3 RECOVERIES

similar periods of the past three recoveries (excluding the 1981 recovery which did not last this long). The durable goods sector has been particularly strong, posting a 28.2 percent increase in industrial production, compared to an average recovery rise of only 17 percent during previous episodes. The fuel for this surge in industrial production in durable manufacturing came from the stone, clay and glass, primary and fabricated metals, and electrical and nonelectrical machinery industries, which posted dramatic increases in production. Production in the nondurable goods sector, however, was only slightly above the typical recovery experience (see Chart 2).

Nevertheless, some industries, particularly nondurables, remain weak. The industrial production recovery in the food and kindred products, tobacco, petroleum, and leather products industries has, so far, been below the average for past recoveries. Real gross domestic product (output in 1972 dollars) continued to decline in these industries during 1983. The same is true of machine tool producers, which fall under the nonelectrical machinery category. Although industrial production in this industry enjoyed a respectable increase during the past year and a half, real GDP continued to fall during 1983, albeit at a significantly slower rate than in 1982. All of these industries, however, are the victims of special circumstances, such as shifts in patterns of demand (e.g. tobacco), competition from imports (e.g. leather and machine tools), and oversupply (e.g. petroleum). In the case of tobacco and petroleum products, there is very little that these industries can do to reverse the situation in the short run. But, both the leather and nonelectrical machinery sectors have engaged in significant increases in plant and equipment expenditures geared towards improving efficiency of production and international competitiveness.

Plant and Equipment Spending and Employment

The data on plant and equipment expenditures, and employment closely parallel the increases in gross domestic product and industrial production. These indicators show that the recovery has been quite widespread. The data do, in fact, show that some industries have enjoyed faster increases than others during the current economic expansion. However, it also shows the strongest rates of improvement for those industries that have been portrayed as declining. For instance, while total, inflation-adjusted expenditures on plant and equipment in the nation's nonfarm industries rose by ten percent since the beginning of the recovery, the bulk of the increase was in the manufacturing sector, which enjoyed an almost 17 percent rate of growth compared to only 6.3 percent for the nonmanufacturing sector. In the durable manufacturing sector all the industries, with the exception of stone, clay and glass, and fabricated metals, showed improvements significantly above the average for all nonfarm industries. While in the nondurables category, all industries, with the exception of food and beverages, enjoyed increases in plant and equipment spending that were double the average for all industries (see Table 3).

TABLE 3
REAL PLANT & EQUIPMENT EXPENDITURES RECOVERY EXPERIENCE
(% change)

	82:4 to 84:2	75:1 to 76:3	70:4 to 72:3	61:1 to 62:3
Nonfarm, total	10.0	-1.3	3.4	8.9
Manufacturing	16.8	-1.4	-8.0	3.5
Nondurables	15.9	1.2	-5.0	2.1
Food and Kindred Products	-9.4	11.1	-6.8	-5.2
Textiles	21.5	13.9	32.1	5.6
Paper & Products	21.5	-4.5	-16.5	-11.6
Printing & Publishing	19.9	-1.8	-4.3	2.9
Petroleum	19.4	5.9	-13.1	8.4
Rubber & Plastics	24.1	-8.9	14.3	8.7
Durables	17.7	-4.0	-10.8	4.9
Stone, Clay & Glass	3.6	0.0	17.4	16.5
Primary Metals	15.7	-4.1	-33.2	-15.3
Fabricated Metals	9.7	0.6	8.0	14.1
Nonelectrical Machinery	16.1	-6.3	-16.9	11.1
Electrical Machinery	28.7	6.7	-18.6	-10.1
Transportation Equipment	17.8	-9.9	-2.3	16.5
Motor Vehicles	33.9	-12.3	6.4	7.5
Instruments				
Miscellaneous				

This surge in investment was reflected in healthy increases in industrial employment. Total nonfarm employment has risen by 5.1 million jobs since the end of the recession, a 5.7 percent increase. Manufacturing employment rose by 8.1 percent, mainly on the strength of a 10.7 percent increase in durable manufacturing employment.

While these results are very encouraging and certainly should dispel the notion that the recovery has left major industrial sectors behind, it is a fact of economic life that the manufacturing sector, and durable manufacturing in particular, is extremely sensitive to business cycles. As a result, their stronger than average recovery should come as no surprise since these industries also suffered higher than average employment losses during the recession. What does make this recovery remarkable, however, is its strength relative to previous recovery experience.

The recent ten percent increase in total plant and equipment spending was preceded by a a 0.5 percent *decline* during the 1975-1976 recovery and a 3.9 percent increase in 1970-1972. This higher than average performance is also evident when the data is disaggregated by industry. Expenditures for manufacturing plant and equipment rose by almost 17 percent during the past year and a half, compared to an average *decline* of two percent during the past three recoveries. Investment in manufacturing durables rose by 17.7 percent compared to an average *decline* of 3.3 percent, the increase in investment was particularly strong in the electrical machinery and motor vehicles sectors (see Table 3).

As can be expected, the rate of job creation has also been significantly stronger than the average for the typical recovery. The 5.7 percent increase in total nonfarm employment compares favorably to an average recovery increase of only 3.5 percent. Durable manufacturing employment rose by almost eleven percent since the end of 1982, compared to 2.3 percent in 1975-1976, and 3.4 percent in 1971-1972. The strongest employment increases were in the lumber, furniture, electrical machinery, and transportation equipment industries. In the nondurables sector, only rubber and plastics parallelled the strength evident in durables (see Table 4).

TABLE 4
INDUSTRIAL EMPLOYMENT IN THE FIRST SIX QUARTERS OF ECONOMIC EXPANSION
(% change)

	82:4 to 84:2	75:1 to 76:3	70:4 to 72:3	61:1 to 62:3
Nonfarm, total	5.7	3.7	4.1	4.3
Manufacturing	8.1	3.3	2.3	4.9
Nondurables	4.6	4.7	0.8	2.6
Food and Kindred Products	1.1	3.1	-0.8	-0.6
Tobacco	-1.5	4.9	-6.1	1.1
Textiles	4.8	10.5	2.9	2.0
Apparel	7.1	8.9	2.6	5.6
Paper & Products	4.3	4.4	-0.6	3.4
Printing & Publishing	6.6	1.0	0.0	1.6
Chemicals	0.4	2.2	-2.3	3.5
Petroleum	-5.5	4.2	2.8	-5.4
Rubber & Plastics	17.0	2.1	10.0	14.7
Leather & Products	-1.6	8.6	-3.2	0.4
Durables	10.7	2.3	3.4	6.9
Lumber & Wood Products	19.5	15.4	12.0	3.1
Furniture & Fixtures	13.7	8.1	10.9	7.9
Stone, Clay & Glass	8.4	1.3	6.1	4.1
Primary Metals	7.2	-1.6	-3.8	3.8
Fabricated Metals	8.9	2.8	3.6	7.7
Nonelectrical Machinery	7.5	-2.5	-0.4	6.8
Electrical Machinery	14.1	2.4	1.5	8.8
Transportation Equipment	14.8	3.8	9.4	9.9
Instruments	3.3	2.8	1.1	4.8
Miscellaneous	5.0	6.3	3.7	4.8
Mining	-3.5	5.5	0.4	-4.7
Construction	12.1	-2.3	8.3	5.6

Productivity

The data on productivity reflect the sharp increases in output and investment. Between 1976 and 1983, total manufacturing productivity, as well as productivity in the durables and nondurables sectors, rose at an average annual rate of 2.1 percent. Data for 1982, 1983 and the first half of 1984 show that while

productivity growth slowed during the recession, the turnaround during the past six quarters far outstripped the 1976-1983 average, and that improvement was particularly strong in the durable manufacturing sector. While total productivity in the nonfarm business sector rose by almost six percent since the recovery began, manufacturing productivity rose by 6.9 percent, largely on the strength of an almost nine percent rise in the durable goods sector. The strong increase in output during 1983, which was the result of sharp improvements in plant and equipment spending, was, in turn, largely responsible for rising productivity.

Profits

After suffering through a recession, which in some cases, as in the construction industry, began as far back as 1978, most industries saw profits rebound dramatically as the recovery gathered strength. The rise in corporate profits during the second quarter reflected the big gains in consumer and business spending. Impressive gains in labor productivity held down the rise in unit labor costs, further aiding profits. Two industries, automobiles and steel, which were hard hit by the recession and by competition from foreign imports, reported their best quarterly earnings since 1981. In the quarter just ended, the auto industry turned in a stellar performance. Automakers will be hard pressed for an encore to top their recent achievements: record after-tax profits of $5.7 billion last year, followed by profits of $3.1 billion for the first quarter of this year. Profits at the Big Three auto makers soared 75 percent from a year earlier. Other industries which enjoyed substantial increases in profits include cement, farm equipment, nonferrous metals, and machine tools. Huge gains in net income were reported by such groups as airlines, building supplies, forest products, specialty electrical equipment, railway gear, and rubber.

A NEW WAVE OF INNOVATION IS STRENGTHENING AMERICAN INDUSTRY

A new era of manufacturing is emerging which is enabling firms to turn out a greater diversity of product models through the use of computer technology. Nowhere is this fundamental change more evident than in the automobile industry. Pinned against the wall by import competition, it was the first U.S. basic industry to make an industry-wide commitment to high technology. The auto industry has spent vast amounts of funds building new factories and modernizing old ones. That trend is now spilling over to suppliers of auto firms.

In the footsteps of the auto industry, other major industries to seriously pursue high technology have been heavy equipment manufacturers and machine tool builders. Throughout the heavy equipment industry—at Caterpillar Tractor, International Harvester, Ingersoll-Rand and others—advanced technology is coming on apace. But the shining example is Deere & Co. Its sprawling Tractor Works in Waterloo, Iowa is considered by many to be the nation's ultimate state-of-the-art manufacturing facility. Machine tool builders stepped up their interest in innovation after watching their traditional dominance of the world market slide into a net trade deficit. Their newly aroused concern has coincided with the availability of low cost electronics, which made it possible to design sharply improved capability into their products.

In the textile industry, which has suffered extensive damage through competition from imports, new generation machines clean cotton and other fibers ten times faster than was possible a decade ago. Looms produce a hundred yards of cloth an hour—twice as fast as ten years ago.

THE COMPETITION FROM IMPORTS

A rising tide of imports of both consumer and capital goods has been a major characteristic of this recovery. Real imports rose by 25 percent in 1983 buoyed by a strong dollar which makes foreign products comparatively less expensive in U.S. markets. In contrast to previous import invasions, the fastest growing category of imports this time around is capital goods. In the first half of 1984, capital goods imports were fifty percent higher than a year earlier, and were coming in at an annual rate of $58 billion. Since 1979 capital goods imports have more than doubled.

Stiff competition from foreign producers in U.S. and foreign markets has been blamed for the decline in manufacturing. Paradoxically, some of the industries which have been hurt by import competition are themselves heavy importers. For instance, in their drive to modernize, textile producers have equipped their factories with state-of-the-art German looms. Machine tool manufacturers, another victim of rising imports, are, in many cases, themselves importing various machinery. Almost 33 percent of U.S. machine tool sales in 1983 were imports. Even in the high technology industries, imports are rapidly making inroads. In the manufacturing industries, the import penetration ratio (the ratio of imports to new supply) rose from 7.7 percent in 1974 to 9.1 percent in 1981. In the tobacco, apparel, leather, and miscellaneous manufactures industries the ratio almost doubled during the 1974-1981 period.

The dollar's strength, however, has only exacerbated the erosion of the competitive position of U.S. manufactures. A well known fact of foreign trade is that American industry has, until recently, not recognized the full potential of foreign markets and has not embarked in vigorous export programs. Because of the large size of our domestic market, many companies, in the past, felt less urgency about opportunities abroad, and failed to make the sustained investments needed to develop overseas markets. Another reason why U.S. manufacturing has lost its competitive edge is the extremely high cost of factors of production—both labor and capital—which has placed the U.S. at a competitive disadvantage with respect to developing nations such as Brazil and Korea which enjoy lower labor costs, and Japan where the cost of capital is significantly lower.

The cost of capital issue is one that we touched upon more than a year ago (see "Corporate Health: How Sick is the Patient?" in the May 1983 issue of ECONOMIC OUTLOOK), and has been amply documented. Manufacturing industries are limited in their use of debt in large part as a result of their cyclicality. Heavy use of debt financing would result in heavy losses and even bankruptcy for those firms where demand for their products drops off sharply during economic downturns. This will always happen as a result of the very nature of these products. Whereas purchases of nondurables, such as food, cannot be significantly reduced when incomes decline, purchases of consumer durables are easily postponed in periods of economic hardship. With regard to equity financing, U.S. manufacturing firms are severely hindered by tax laws, such as a double taxation of dividend income, which increase the cost of capital. High labor costs in the United States have also been amply documented. Comparisons across countries show that we have one of the highest labor costs in the world.

INDUSTRY DETAIL

While the basic factors underlying the problems of U.S. manufacturing have been touched upon, additional insights are gained by examining individual industries. Clearly, specific events and decisions have served an important role in determining each industry's performance. Also, competitive positions differ substantially among industries.

Construction

After two years of recovery, the dynamics of the building cycle are shifting from residential to nonresidential building. Total new construction increased sharply in 1983 after four years of decline, largely because of the dramatic rise in private residential construction. The turnaround was a result of the decline in interest rates that occurred in the second half of 1982 and in the beginning of 1983. In contrast, private nonresidential construction declined, largely because industrial construction was depressed by recession in the manufacturing industries and because the office building boom began to subside. In general, the heavy construction industry was held back last year by excess capacity, a general weakness in capital spending and a steep decline in energy exploration.

While the mid-summer rise in mortgage interest rates did result in a lower level of starts in the third quarter, housing recovered in September as interest rates fell in August and September. As interest rates continue to ease, the housing sector is likely to get a second wind. The ability of the economy to sustain the new housing construction recovery that started in 1983 will be important for both producers of materials used in new homes and for additional construction activity. New housing has increased the needs for various types of commercial and institutional buildings, and has influenced construction requirements for additional schools, roads, and other public infrastructure.

The nonresidential building cycle, in typical fashion, lags a year behind the housing market, leaving much of its potential still to be realized. The retail building market (stores and warehouses) is on its way to two years (1984 and 1985) of high volume building as it responds to needs created by the recent surge of residential building. The extraordinary office building boom of the past five years, which produced as much new office space as was built in the previous ten years, began with the firm support of strong demographics. During the remainder of this year and into 1985, nonresidential building will be increasingly dominant as the housing boom slows down.

Lumber and Wood Products

Last year was regarded as "choppy" for the forest products industry. The year began with a strong surge in the demand for building products as the housing market recovered. Forest products companies, currently enjoying a burst in demand for paper products, see 1985 as a year of solid sales and profit gains. This upbeat outlook may seem surprising for an industry that just a year ago was rife with unemployment. But 1983 and 1984 provided a healthy rebound for the lumber side of the industry. The demand for lumber depends to a great extent on the level of residential construction, which is forecast to improve substantially during the next five years. Lumber prices initially picked up in 1983, reactivating all of the industry's capacity, and resulting in an oversupply situation which

caused a subsequent sharp drop in prices. Despite continuing weakness in the lumber and plywood markets, earnings rose sharply and should stay strong throughout this year and next.

In recent years, forest products companies have invested heavily in labor-saving techniques and have kept a tight lid on capital spending. The U.S. is usually a net exporter of wood products but in the first half of 1983, imports exceeded exports. Canada supplied nearly all (97 percent) of U.S. lumber imports in 1983. Since lumber is priced in the world markets, the high value of the U.S. dollar is reflected in the relatively low domestic prices. The U.S. share in world markets is believed to be diminishing as countries such as Canada, compete more effectively and dominate a larger share of the market.

Stone, Clay and Glass

The stone, clay and glass industry remains sensitive to shifts in interest rates and particularly, to the general performance of the construction industry. Thus, the industry benefited from dramatic increases in residential and nonresidential construction in 1983. If the expansion continues at a healthy pace through 1985, as we believe it will, strong rates of production growth can be expected to continue in this industry as well. The surge in the housing market and the serious efforts in some parts of the country to repair crumbling infrastructure resulted in record demand for products such as cement. After restructuring its facilities, the industry began to open new, more efficient plants to meet the growing demand. As a result, profit levels spurted by 155 percent. Although employment growth has been slow, productivity shows an above average trend.

The import penetration ratio rose sharply from the mid-1960s to 1980 and the U.S. share in world export markets declined. As a result, the industry trade deficit expanded and reached $0.5 billion in 1982. Canada is by far the largest construction material supplier to the U.S. and also the major customer for U.S. exports. Some U.S. producers have sizeable markets in Central and South America and in the Middle East.

Nonferrous Metals

The nation's nonferrous metals industry should show a marked improvement in 1985. Even though the industry finished 1983 in the red, it was a time of recovery for most nonferrous metals producers. By the middle of this year, some producers were operating at near capacity, compared with about 75 percent at the beginning of 1983. Major nonferrous metals producers are enjoying an upward momentum that should enable them to achieve a significant improvement next year. Producers' inventories are declining, consumption is picking up, and prices are stabilizing. Aluminum, for one, is already in a recovery.

The industry, which includes producers of molybdenum, nickel, lead, zinc, copper and aluminum, is still beset with problems that made the recent recession the worst period in its history. The main problems were overcapacity and tough foreign competition. Some metals have special problems of their own which are independent of general business conditions. A case in point is lead. Lead producers are going to have to find new markets to make up for its being phased out of the paint and gasoline business. Similarly, copper is facing market losses due to substitutes such as fiber optics in the telecommunications industry, and plastic pipes in plumbing.

The demand for aluminum has been revived by the surge in autos, housing and consumer durables. Although the largest U.S. producers—Aluminum Co. of America and Reynolds Metals Co.—have chalked up improved sales and earnings this year, the domestic industry has had to shutter 8.5 percent of its primary aluminum production in an effort to bolster prices. Martin Marietta's withdrawal from aluminum is the latest development in a dramatic restructuring of the world industry—a shakeup in which high-cost primary aluminum production is shifting from the U.S. to Canada, Brazil and Australia, where the cost of energy is much lower. Also contributing to the industry's upheaval is the strong U.S. dollar, which in recent years has attracted record-level imports of low-priced, foreign aluminum into the U.S.

The outlook for other nonferrous metals also hinges on the continuing strong recovery in autos and housing. Zinc consumption has increased this year and should continue to rise in 1985. For practically all nonferrous producers the reduced level of inventories will be an upbeat factor for 1985. For the past two years, persistently high supplies severely depressed most nonferrous metal prices, forcing a succession of mine closings. Now, because molybdenum producers have slashed their mine output by 65 percent last year alone, stockpiles have shrunk. The situation in copper, however, is more troubling. U.S. producers are hampered by oversupply and plagued by low-cost foreign copper that continues to flood into the country. As copper prices have dropped, mines in Third World countries have increased their output to make up for lost revenues. U.S. copper producers are asking the Administration to penalize countries, such as Chile and Zambia, that are the most deeply indebted to U.S. banks and depend heavily on copper revenues to service their debt. This has created a supply-demand imbalance, pushing the price of copper below seventy

cents a pound. Because of the huge inventory overhangs, copper prices are expected to average only 63 cents a pound next year.

Despite the sharp decline in employment, wages in the industry have risen very sharply to a level nearly fifty percent above the economy's average. This industry suffered the largest decline in output, productivity and employment among all the manufacturing industries during the 1974-82 period. Recently, investment in this capital-intensive industry has been falling. Further, an increasing share of the investment is now devoted to some of the newer fields into which companies have diversified rather than to modernization of the existing industry. The import penetration ratio has been rising rapidly, and in 1982 approached twenty percent. The industry's trade deficit was a very large $11.3 billion in 1983.

Steel

In 1983, the steel industry hesitantly emerged from the disastrous 1982 experience of low output, high unemployment, and large financial losses. In addition, the import share of steel shipments has increased from six percent in 1965 to near 25 percent this year. During the past year, production has also dropped by forty percent. Although, production and shipments have gradually improved this year, some markets, particularly for flat-rolled products are doing better than others due to the increased automotive and appliance demands. Firms specializing in these products showed larger gains in earnings than companies devoted to plate, large structural, rail and pipe products.

The Administration has approved a program of voluntary import quotas as its version of a plan to save the steel industry. Although the plan has no built-in enforcement mechanism, the Administration expects that it will bring steel imports down to 18.5 percent of the American market from the current 25 percent. Still, hope springs eternal and the industry is encouraged by the modest $124 million profit earned during the beginning of this year. With industries such as autos and appliances booming, shipments are mounting; they should rise 15 percent by year-end and eight percent in 1985.

The energy crisis of the 1970s is one reason for lower steel consumption (the average American-made car now contains some 600 fewer pounds of steel than it did in 1976). Another reason for the decline in steel demand is the steady shift away from goods produced by heavy industry toward electronics, services, and information processing (there is no steel in a microchip). Steel producers are confronting their shrinking market by eliminating inefficient capacity; the industry is operating at only 57 percent of capacity. Even with rising consumption and a large swing in customers' net inventory positions last year, shipments remained below seventy million tons for the second straight year. Big steel producers will continue to face intense competition from both imported steel and the rise of domestic mini-mills. These mini-mills have already grabbed over 15 percent of the U.S. market and are expanding rapidly into new products.

A major drag on the industry has been import competition. Major U.S. producers cannot compete effectively in such lines as bars, rods and wires. Their most recent strategy has been to abandon noncompetitive products and plants and to carve out niches in product lines where they can be competitive, namely, sheet products, plate, and structural steel. But that will require massive investment in new facilities and new technology. It appears that steel's road to recovery will be slow and difficult for the next few years.

Nonelectrical Machinery

There has not been much good news in the machine tool industry since 1979. Only a slow pick-up is anticipated and many companies do not expect to return to profitability until late 1985. Severe overcapacity and weak pricing forced all the major companies to restructure operations. The industry is also plagued by tough foreign competition as imports dominate about 42 percent of the U.S. market this year, as compared to 32.5 percent in 1983. And in two key products—numerically controlled lathes and machining centers—imports account for over two-thirds of all U.S. sales. As Third World markets struggle for a share of the machine tools industry, the strength of the U.S. dollar, high interest rates, and lagging foreign markets will hold U.S. exports to marginal gains. Some firms slashed employment as much as fifty percent between 1981 and 1984, and many old-line plants were closed. But, at the same time, plants which were competitive were expanded and companies opened new, more highly automated facilities.

Robot producers expect substantial growth and machine-tool builders say their customers are demanding more computer-controlled equipment to increase production efficiency. It appears that companies will have to put more effort into engineering and spend more time on the computerization of their business. Technology will remain a key factor as the industry continues to search for even more efficient applications of the computer to machines and industrial processes.

If there ever was a time for an entire industry to change, it was the early 1980s for the industrial equipment makers. Demand in all product lines—

industrial, construction and agriculture—hit previously unseen lows. The industry has closed down facilities and cut deeply into employment in a struggle to reduce break-even points. Last year the tough times brought widespread price-cutting in an effort to reduce unwanted inventories. But persistently high interest rates still dampened sales. Next year does not promise much improvement in sales unless there is a total restructuring of the industry. Exports are expected to grow 11 percent in 1984, and will continue to account for over thirty percent of total shipments of industrial machinery. Imports should also rise by over ten percent.

The government's agricultural Payment-in-Kind (PIK) program, which took over eighty million acres of land out of production, has also hurt the demand for agricultural equipment. Drastic cost-cutting and gains in other businesses helped some tractor and combine makers to regain profitability and others to narrow losses. Agricultural equipment producers are estimating that retail sales should rise about ten percent this year and next, but that will hardly be sufficient to pull the industry out of the red. In an industry that has been needing to consolidate for years, the bleak forecast for 1985 intensifies the likelihood that some manufacturers will bail out by next year. The question troubling farm suppliers is whether the recovery in agriculture will be sustained into 1985 and beyond. Farm equipment makers also see a threat from Japanese companies who are looking to expand into the larger equipment lines.

Computers

In 1984, the demand for computers—for both personal and business use—has been called insatiable. Revenues for the computer industry will grow at a rate of twenty percent a year through 1984 and well into 1985. Even during 1983, when demand recovered from a soft spell induced by lower capital spending, a highly competitive atmosphere put pressure on the margins of even the giant companies. A shift in consumer preferences toward leasing rather than purchasing data-processing equipment, placed unusual demands on the corporate cash flow of some vendors. It is expected that the dollar value of shipments of personal computers will increase by 38 percent between now and 1987.

Higher capital spending this year should mean faster growth for the information processing industry which generally lags behind other businesses in a recovery. IBM, the giant of the industry, expects revenues to increase by twenty percent this year and next. Many minicomputer makers will profit only modestly as inexpensive microcomputers are capturing the market. New software companies will provide programs for the flood of personal computers in automated offices and expect sales to increase by fifty percent next year.

The healthy U.S. trade surplus in computer equipment is shrinking—$6.2 billion in 1983 from $8 billion in 1982. This, in part, is due to the growing ability of foreign suppliers, particularly those in the Far East, to provide low-cost products. Overseas business should pick up as the recovery strengthens in Europe, but those sales will come mainly from offshore plants.

Electrical Machinery

The electronic and electric equipment industry had the highest rate of output growth and productivity gain among all the manufacturing industries. Investment has been expanding rapidly, with a major portion of funds being channeled into research and development. Although the U.S. export share of world markets has been falling, it is still better off than other industries.

Semiconductor makers will have boosted capacity by fifty percent by 1985 even though some are worried about overbuilding. Manufacturing capacity seems to be the only real lid on growth for the industry. Industry shipments of consumer electronics are expected to increase 16 percent this year and should be even higher in 1985. Higher defense spending and a healthier capital investment atmosphere will also tend to make 1985 look strong and boost profits considerably. This year's demand is being fueled by microcomputers, VCRs and other consumer electronics, and military and distributor sales. One reason for the surge is simply the continued trend toward more electronics in all products. Another factor is the personal computer phenomenon which has sparked a strong demand for microprocessors. Although the U.S. export share has been falling in the electrical machinery sector, it is better off than in most other industries.

Transportation Equipment

In the last decade, the transportation equipment industry has experienced slowing growth of output because of the energy revolution and its impaired international competitive position. Production and productivity are considered unstable because of the cyclical vulnerability of its markets. However, a more profitable product mix and internal restructuring during the lean years has spurred the industry's return. As a result, 1985 should be a strong year for transportation equipment. The industry, especially the motor vehicle component, is now devoting a large share of its revenue to research and development expenditures. In the case of the auto industry, this includes modernizing the product; in the aircraft industry, advanced technology

is required to develop improved missiles for defense purposes.

Since 1978, the U.S. automotive industry has demonstrated its ability to adapt to altered market conditions. It has completely transformed its vehicle lines through record high levels of capital spending accompanied by massive cash flow deficits. Reduction in unit labor costs, inventory costs and supplier-related costs have brought costs of production under control. Productivity has improved through the use of innovative management techniques and increased use of robotics. Improving general economic conditions will allow the motor vehicles manufacturers to continue plant modernization and new product programs. The ability to raise investment funds for continued capital improvements will remain an important ingredient in responding to import competition and in achieving long-term reductions in production costs. Next year will see a slowdown in the long-run growth of automotive demand as the industry approaches full capacity.

Truck sales have soared, benefiting from a renewed interest in capital investments and straining the industry's capacity to produce. Next year will see a slower growth market in trucks as international competition in the medium and heavy duty truck market intensifies. Some firming of prices late last year should help profits improve even more in 1985. As a consequence, the four largest trucking firms reported profit gains averaging 48 percent in 1983. But, it may still be another two years before the industry as a whole begins to approach the income levels of 1978—the most recent boom year for truckers. Total car and truck sales should top 13.6 million units this year, a 15 percent increase from last year.

Instruments

The instruments industry, consisting principally of scientific and industrial measurement equipment and consumer products such as cameras, continues to be one of the more profitable manufacturing industries. Although both product shipments (in constant dollars) and employment dipped four percent in 1983, some improvement is expected this year and next. The industry is spending more heavily on research and development. One noticeable trend that is emerging is the increasing integration of computer technology with instrumentation. Given the proliferation of small computers in the market for instrumentation, this trend will continue for the foreseeable future.

A host of negative factors continue to dampen the prospects for industry exports: the high value of the dollar, the continued economic sluggishness in other industrialized countries, the serious liquidity problems that have reduced capital expenditures in developing nations' markets, and the increasing competitiveness of Japanese and European manufacturers. Nevertheless, the U.S. continues to be a major net exporter of instruments.

Food and Products

Changing consumer tastes literally dictate changes in the food industry. And last year's trend toward upward mobility, variety and nutrition continues to dominate the fortunes of the food industry. The industry is based on the nation's highly productive agriculture and is a strong participant in the world markets. The continuing strength of the U.S. dollar, however, inhibited exports of processed foods, feeds and beverages, while favorable exchange rates aided foreign producers, who increased their exports in 1983 and will continue to do so throughout 1985. Consequently, sales and profits for many U.S. food and beverage firms have been depressed and will continue to be marginal throughout 1985. The industry also suffers from protectionist measures abroad, including the aggressive measures by the European Economic Community to promote its agriculture.

In a suddenly deflationary environment, food processors no longer find it easy to protect margins by raising prices as consumers are now buying "value" only. Earnings were mixed within the industry: profits of cereal, cake-mix and cookie makers were cut by heated competition and heavy marketing expenses; dairy food and beverage companies benefited from strong sales; meat processors' earnings were squeezed by low consumer demand and high commodity prices. Productivity shows a trend rate of increase of 3.7 percent, which exceeds the rate of output. As a result, employment has been declining; between 1976 and 1983, employment declined at a 0.6 percent annual rate. Although cost-cutting and manufacturing efficiency have contributed to the industry's current profitability, the bottom line in the future will depend upon how processors address changes in lifestyles and demographics.

Tobacco Products

The tobacco industry is finally beginning to recover from the negative effects of a federal tax increase that went into effect January 1, 1983; the tax raised the price of a pack of cigarettes by about eight cents and reduced unit sales markedly. To minimize the effects of the tax, manufacturers have introduced new products and increased advertising and promotion. In 1983, tobacco production manufacturers reduced their work force by 4.6 percent due to decreased demand. However, wages continued to increase above the economy-wide average.

Intensifying competition will characterize the tobacco industry in 1985 as firms, reeling from tax-related consumption declines, seek to gain larger market shares. The improving economy and strengthening of disposable income will aid in minimizing volume losses. The continuing strength of the U.S. dollar and the weaker recoveries abroad will severely limit export sales of manufactured tobacco products. In 1983, the value of all tobacco product exports declined by almost twenty percent compared to 1982. Even though cigarette consumption is expected to increase in 1985, production will be down due to weak export demand.

Textile and Apparel Products

Stimulated by an improving economy, tax reductions, and lower interest rates, the textile industry recovered modestly in 1983. Faced with continued weak demand, textile producers were reluctant to rebuild inventories to normal levels. By the fourth quarter of 1983, textile companies were enjoying a stronger position as demand for cotton yarns, blended fabrics and household furnishings were on the rise.

Nearly all textile companies have invested heavily in automated factories to replace aging, inefficient plants. Organizational restructuring has given textile and apparel makers a better definition of their business lines but investment has been on a downward trend due to increased import penetration. Although textile industry employment declined in 1983 by more than two percent, productivity improvements of over five percent are expected this year and next. The high rate of productivity gain achieved by this industry, in spite of modest gains in output, reflects the efforts that have been made by the industry in recent years to become more efficient through the introduction of new technology and equipment.

The apparel industry plays a major role in the U.S. economy, providing manufacturing activity and employment in every state. Competition in this industry is intense because of the large number of producers both here and abroad. As a result, apparel prices have not increased as fast as those of other consumer items. Employment has declined significantly, falling by 12 percent since 1979. Apparel sales are expected to grow by ten percent this year and seven percent next year.

Textile and apparel imports continue to flood U.S. markets. In dollar terms, imports increased 18 percent last year while exports dropped 14 percent. The bilateral textile agreements under the Multi-fiber Arrangement with Hong Kong, South Korea and Taiwan failed to hold down the surge of imports, partly because of the rapid growth in categories where there are no quotas. The Republic of China has recently gained a role under the Arrangement and is likely to be another aggressive exporter to U.S. markets. No full recovery for this industry is possible with such an onslaught from abroad.

Paper and Products

Because the demand for wood pulp is tied so closely to general economic conditions, both in the U.S. and worldwide, the slower recoveries of foreign economies in 1983 dampened the expected rebound of U.S. pulp mills. The paper industry has been one of the few manufacturing industries to show an increasing share of the country's total investment. The outlook for 1984 and 1985 is for continued growth in production, coupled with improved prices. Higher capacity utilization rates (91 percent in 1983), along with cost reduction measures employed during the recession, point toward a more favorable cost structure. Rising demand and prices, coupled with modest cost increases should boost earnings as much as sixty percent this year and forty percent next year. Given the moderate growth in foreign economies, the relative strength of the dollar may prove to be an important factor for the industry in 1985.

The paper and board industry is basically sound and healthy. The demand for writing grades of paper, the industry's largest dollar segment, has received an important boost from the increased use of personal computers, PC printers, and their thick companion how-to manuals. However, uncertainties do exist about future growth in both domestic and foreign markets. Inroads by plastics into the domestic paper market continues, as witnessed by the growth of plastic in the grocery sack market. Other market losses may arise from the increasing use of telecommunication devices that transmit information electronically. In order to remain healthy, the industry may be forced to intensify its exploration of innovative cost-saving production techniques that will allow its products to compete with alternative materials and be overwhelmingly competitive in foreign markets.

Although the industry is essentially geared to satisfying the demands of the large domestic market, exports also play an important role. The U.S. is a major world supplier of paper products and exports account for about 20 percent of the industry's total production. Historically, however, the U.S. has been a net importer, mainly because of its heavy reliance on imported newsprint and wood pulp from Canada.

Printing and Publishing

The U.S. Printing, Publishing and Allied Industry is the world's largest of its kind. It employs more than 1.3

million people and is the largest conglomeration of small businesses in the domestic manufacturing sector. Between 1976 and 1983, employment grew at a 2.6 percent annual rate, accompanied by an output increase of 3.2 percent. Growth of this industry is predicated upon population growth, higher educational attainment, increased personal consumption expenditures and an expanding GNP. In view of the favorable outlook for these demographic and economic factors, the industry can be expected to continue growing at an average rate of about 3.5 percent throughout the remainder of this year and next. The industry has been relatively profitable as demand for its output is aided by the "information" revolution. Several big publishers posted double-digit gains in earnings in 1983 and expect profit margins to remain unchanged in 1984. Publishers will probably face increases next year stemming from higher prices of newsprint, ink and other materials.

Both exports and imports of printed matter have been rising at a consistent rate for several years. Canada continues to be the major market for U.S. printed products, accounting for fifty percent of the total dollar volume. The primary supplier of U.S. imports of printed products in 1983 was the United Kingdom, with Canada responsible for the second largest share. Because of the size of the U.S. market, the cultural leadership which the U.S. exercises globally, as well as the transfer of technology through the print medium, the printing and publishing industry is a net exporter.

Chemicals and Products

As economies overseas improve, and with an expected boost from agricultural markets, the chemical industry is expected to out-perform most others in 1984 and 1985. The chemical industry has traditionally been the fastest growing manufacturing industry in terms of output, capital spending and productivity. It also devotes a large proportion of its resources to research and development. With strong productivity increases and production slowdowns, the growth in employment has tapered off. Employment increased slowly at a 0.1 percent annual rate between 1976 and 1983.

Thanks to a much stronger cash flow and stringent cost-cutting measures, the debt position of the major chemical companies is much improved. This year and next appears to be promising for chemical manufacturers as they benefit from strong demand in housing, automobiles and textiles as well as higher operating rates and stable petrochemical costs. Total sales could grow by 15 percent over the 1983 level, and profits are expected to increase by 25 percent. The reason for this turnaround is simple: during the 1982 recession chemical companies were forced to institute severe cost-cutting programs—plants were closed, overhead slashed, and employment pruned. These moves lowered the companies' break-even points and the plants are now operating at 75 percent of capacity and earnings are on the rise. Capital spending is expected to increase this year by 15 percent, with the bulk of the money earmarked for modernization and efficiency improvements.

Caution is still needed as considerable overcapacity of some chemicals persists in the domestic market. The industrial sector, especially steel, to which some chemical firms are closely tied, was slow to recover. Sales to the agricultural sector remained low throughout most of the year. Nor did the energy sector provide much spark. Growth in the industry's usually robust export markets has also slowed. Exports are expected to increase only six percent this year while imports might climb over eight percent. Part of the problem lies in the strength of the dollar. The chemical product groups with the best export potential this year and next are synthetic rubber, man-made fibers, medicinals and botanicals, and some of the fertilizer materials. The importation of autos, consumer electronics, and apparel represents a loss of markets for U.S. plastics, textile fibers and numerous other chemical materials. In addition, Kuwait, Canada and Mexico all have been expanding their organic chemicals capacity and are rapidly becoming strong competitors in world markets.

Petroleum Products

The petroleum products industry is expected to experience slow growth, increased production complexity, and limited profits during the next few years. During the 1974-82 period, the industry recorded the second largest rate of decrease in productivity among the manufacturing industries (2.1 percent), accompanied by a 1.7 percent rate of decline in output. The process of adjusting to changes brought about by the rapid escalation of crude oil prices during the 1970s is still underway. Substantial investments are being made to upgrade the industry in response to increasing demand for lighter, refined products. Because of current overcapacity and depressed demand, refiners are competing heavily for a share of the market.

Companies continue to restructure and streamline operations to adjust to long-term, critical changes in the marketplace. Energy conservation is probably the single most important factor affecting the financial fortunes of oil companies today. Some substitution of non-oil fuels combined with excess capacity in the industry combined to exert strong downward pressures on crude oil and petroleum prices this year, which, in turn, held back the industry's growth. Merger fever has

been rekindled as firms realize it is cheaper to increase crude-oil reserves via acquisitions than to engage in costly exploration and drilling. Oil companies expect that the five year decline in demand will hardly be reversed in 1985, but crude prices should hold steady or even decline, through next year. Net oil imports, at their 12-year low in 1983, should rise 18 percent this year before flattening out in 1985.

The outlook for natural gas is also bleak. Gas deliveries could rise by about five percent this year but the supply surplus will continue to hang over the market. The coal industry can also expect some bad lumps. Although U.S. coal consumption is expected to rise seven percent from its depressed 1983 level, projected consumption will fall short of 1981 levels. Exports will suffer from a strong dollar. The electric utilities industry is also plagued by problems. Power generation will grow this year at a four percent rate but much of the 1984 gain in electricity output will come from new nuclear plants. As these costly facilities come on line, rates are expected to rise, on average, by ten percent, and overcapacity will probably continue to mount.

Rubber Products

The synthetic rubber industry has been profoundly affected by the rapid increase in the prices of crude oil and other fuels. These price increases have resulted in a declining demand for synthetic rubber as automobiles have become lighter and are using smaller and longer lasting radial tires. The desire to conserve energy and to lower costs also extends to the energy-intensive manufacturing process of synthetic rubber. Prospects for the rubber industry will continue to be influenced by the automotive markets and by substitution. There has been a long-term shift away from rubber towards plastics products because many are less expensive than rubber to process. More than sixty percent of the synthetic rubber produced is consumed in the manufacture of tires and other rubber products for motor vehicles; therefore, 1984 and 1985 sales depend largely on new car production. A slimmer industry will have to run at close to capacity to meet the expected demand for new tires this year and next. Even though replacement sales will probably remain flat, demand from the automakers will be the highest in five years. Improvement in new truck sales will also add to the list of growing demand for tires.

Aided by big gains at Goodyear Tire and Rubber and B.F. Goodrich, industry profits climbed sharply. Record tire sales, near capacity operations, and improved productivity helped the last quarter's earnings. Between 1976 and 1983, employment rose at an annual rate of 1.7 percent while output increased at a 4.3 percent annual rate. Although tire demand remains strong, pricing continues to be troublesome in tires and plastics. Imported tires and intense competition are preventing producers from realizing the profits that would be expected when plants are running at capacity. Both imports and exports will be up this year and next due to improving economic conditions; the exports-to-shipments ratio should be near 15 percent.

Leather and Products

The U.S. is one of the principal suppliers of leather to world markets, yet this industry is a classic illustration that, with today's low transportation costs, the availability of the raw material at home is not a decisive advantage. Imports of leather and leather products continue to hold a large share of the U.S. market. The two major sectors—nonrubber footwear and leather tanning—accounted for 76 percent of the total current dollar value of the industry's shipments in 1983. The developing countries share of total U.S. imports of leather and leather products was over seventy percent in 1983, an estimated $3.5 billion. By comparison, U.S. exports of leather and leather products were only $401 million in 1983, down 14 percent from 1982. Most of the leather products industries are highly labor-intensive and the lower wage rates in developing countries give those suppliers a substantial cost advantage. The strength of the U.S. dollar increases this advantage by making imports cheaper than domestic products.

Leather shipments are expected to decline in 1984 and 1985 as domestic production falls off. Between 1976 and 1983, employment declined at an annual rate of 3.0 percent, accompanied by an output decline of 2.6 percent. Prices of leather imports will continue to be highly competitive because of the strong dollar and subsidized raw material costs in several developing countries. Although the footwear industry consumed about sixty percent of all leather produced domestically in 1983, domestic footwear production declined. Consumption declines of leather were also registered by the handbag, luggage and personal leather goods industry.

CONCLUSION

This industrial recovery has been stronger than average. However, a common factor affecting all our major industries is intense competition from foreign producers in both domestic and international markets. Indeed, given this loss of markets to foreign competition, it is surprising that the industrial recovery has been so strong and widespread. Intervention in foreign exchange markets and increased protectionism will not provide the type of long lasting solutions required for this problem. Public policy should be geared towards

increasing incentives to maintain a high level of productivity-enhancing investment. Increased capital spending will not only raise productivity but will also create further investment opportunities, making more new jobs available, thereby improving the overall performance of the American economy. In addition, rising capital outlays will contribute to increased technological innovation, inasmuch as these investments find their way into research and development projects.

TRENDS IN COMMERCE
NOTES ON TABLE II

November 1984

Gross National Product (GNP) - The Department of Commerce preliminary estimate for economic activity in the third quarter of 1984 indicates that GNP—the value of the nation's output of goods and services—grew at an inflation-adjusted 2.7 percent annual rate. The third quarter growth rate is a significant slowdown from the the first half of 1984 when GNP was growing at an 8.6 percent annual rate. This lower growth rate reflects a 0.2 percent growth in personal consumption expenditures compared to a 7.9 percent rate of growth in the second quarter. Government purchases increased by eight percent. Business fixed investment grew at an eight percent annual rate while residential investment increased at a three percent annual rate. Inventory investment was the strongest performer in the third quarter as many firms were surprised at the summer collapse in retail sales. This was in sharp contrast to the second quarter when inventories were in the process of being liquidated.

Money Supply - The nation's money supply—as measured by M-1, currency in circulation plus demand deposits—increased at a 0.5 percent rate in September. This brought the money supply growth, for the last three months, to a 2.1 percent annual rate, below the Federal Reserve target. Between April and June, the money supply increased at an annual rate of more than 12 percent, after remaining relatively stable between March and April. The money supply has been sluggish since June.

Employment - Civilian employment—as measured by the monthly survey of households—increased by 270,000 persons (seasonally adjusted), in September to 105.2 million, bringing the number of employed persons for the first nine months of the year to 2.4 million. The September increase ended two months of declining employment. The survey of business establishments, published by the Department of Labor, appeared to be at odds with the household survey, claiming a loss of over half-a-million jobs between June and September while the establishment data indicated that American businesses hired over one-half million new workers during the summer months.

The U.S. economy has created 6.5 million new jobs since the end of the recession in December 1982. The civilian unemployment rate plunged to 7.1 percent in June, the lowest level since April 1980, but rose to 7.5 percent in July and August and once again declined to 7.4 percent in September, where it has remained for the past two months. The widespread nature of the recovery is best exhibited by the fact that during the last 12 months, 75.4 percent of the 185 private nonagricultural industries in the Bureau of Labor Statistics survey registered increases in employment. The continued strength of the current economic expansion is best exemplified by the fact that last month over 65 percent of the 185 industries surveyed showed increases in employment, the largest percent increase since March.

Prices - The Consumer Price Index for all urban consumers (CPI-U) rose 0.4 percent in September, following a 0.5 percent rise in August. The smaller increase in September was due to a decline in food prices which had surged ahead 0.6 percent in August. This was due, in large part, to a 13.2 percent increase in fresh fruit and vegetable prices. The consumer price index has increased at an annual rate of 3.9 percent in the last six months and 4.2 percent from its year-ago level.

Wholesale prices of finished goods declined 0.2 percent in September, following a 0.1 percent decline in August. The index has remained unchanged for six months. The September decline was largely due to decreases in food and energy prices at the consumer level. Finished energy goods prices, which are lagged one month, declined 0.8 percent in September, the fourth consecutive decline. Prices for finished energy goods in September were 7.4 percent below their levels of a year earlier. Wholesale prices for finished goods have now increased 1.6 percent from year-ago levels and may well end up this year showing the smallest increase in two decades.

The more volatile part of the Producer Price Index, crude goods, declined 0.1 percent in September following a 1.2 percent decline in August. Crude materials prices have now declined in six of the first nine months of 1984 and were actually 0.5 percent below their levels of a year ago.

Housing Starts - Privately-owned housing units re-

bounded in September and were started at an annual rate of 1,676,000 in August, 8.9 percent above the revised 1,539,000 annual rate reported earlier. The August rate of housing starts was the lowest level since the economic recovery began in December 1982. September's housing starts were almost identical to their level a year ago. In the first nine months of 1984, 1,370,200 housing units were started compared to 1,299,500 for the same period in 1983—an increase of five percent.

Industrial Production - Industrial production declined 0.6 percent in September, following a revised gain of only 0.1 percent in August. This places industrial production 7.8 percent higher than a year ago and over 22.4 percent above the November 1982 recession trough. Business equipment production rose 0.3 percent in September, following increases of 1.5 percent in August and 2.3 percent in July. Production of defense-related goods increased by one percent while consumer goods were manufactured at a one percent slower pace than reported in August. In the consumer sector, a decrease of one million in the number of auto assemblies to an annual rate of 6.9 million units was the result of the General Motors strike and a tight supply of parts of adequate quality. This was also a major contributor to the decline in industrial output for the month. Auto makers had planned to increase auto assemblies back to the 7.9 million rate in October, but that will probably not occur due to the strike at General Motors in Canada. That strike has resulted in layoffs and slowed production at the company's American plants due to parts shortages.

The capacity utilization rate for manufacturing, mining, and utilities declined 0.7 percentage points in September to 81.9 percent matching the decline in industrial production. The rate of capacity utilization in the summer months was at the highest level in four years. Capacity utilization is up significantly from the 69.6 percent rate hit at the bottom of the recession, but remains considerably below the previous peak of 87.3 percent reached in March 1979. Capacity in the third quarter continued to grow as American industry added 0.7 percent to its output capability. This was 2.4 percent above the ability of the American economy to produce goods just one year ago.

Business Costs and Productivity - Private business sector productivity, as measured by output per man-hour of all people, increased at a 2.7 percent annual rate in 1983. Productivity continued its climb in the first half of the year as output per hour rose at a four percent annual rate in each quarter. Second-quarter unit labor costs were up 1.3 percent over their year-ago level, but were actually 0.2 percent below their first-quarter rate. Unit labor costs were held down by the increase in productivity which offset increased compensation costs.

Interest Rates - The prime rate, after remaining stable at 13 percent since late June, fell to 12 percent in October. It now appears that the prime rate, which has lagged other interest rates, could continue to go lower. Five year Treasury securities are down almost one and one-half percentage points from their level in early July, while AAA corporate bonds are down 1.2 percentage points. Business loan demand eased at the end of September and was virtually unchanged from its level at the end of August. Since June, business loans at large commercial banks have increased at a 0.7 percent annual rate, a sharp deceleration from the 23 percent growth rate in the first half of the year.

Business Failures and Formations - Dun and Bradstreet's Index of Business Failures for early October indicates that business failures were below the level of October 1983. The latest available data indicates that there were more than 215,000 new business incorporations in the first four months of 1984, a 10.7 percent increase over the same four month period in 1983. If new incorporations continue to increase at the present pace, there should be in excess of 650,000 new incorporations in 1984. The increase in new business incorporations reflects the continued, widespread strength and optimism in the economy. It also signals a continued rise in employment since new business is our greatest single source of jobs.

Federal Spending - The "Federal Spending Index," a U.S. Chamber devised measure of the monthly change in federal expenditures, indicates that federal spending declined 1.2 percent in September . Federal receipts for FY 1984, which ended September 30, increased 11 percent from FY 1983, while outlays rose by 5.7 percent, less than half the rate of increase in receipts. This has resulted in a $20 billion decline in the deficit for FY 1984, compared to a year ago. The slowdown in the growth of outlays is partly due to the large declines in unemployment benefits. It can also be attributed to a steep decline in farm subsidies due to the PIK program and adverse weather conditions which reduced farm surpluses.

Personal Savings - According to Department of Commerce data, personal savings rose to 6.3 percent of after-tax income in the third quarter, compared to 5.7 percent in the second quarter and five percent in third quarter of 1983. The savings rate for the first nine months of 1984 was six percent, one percentage point above the average 1983 level. In the latest quarter, consumers have been diverting two out every five dollars in increased income into savings. Personal

saving in 1984 should be about $35 billion higher than it was in 1983.

Retail Sales - Retail sales increased 1.6 percent in September following declines in July and August, leaving retail sales for the quarter 0.7 percent below their level of the second quarter. September sales were nine percent above year-ago levels, before taking into account price changes. This would indicate that retailers, after taking into account inflation, are selling about five percent more merchandise this year than they were a year ago. The September back-to-school sales pick up has made retailers optimistic about gains for the Christmas season.

Trade Deficit - The trade deficit on a goods and services basis increased to an annual rate of over $85 billion in the third quarter. This was over five times the trade deficit registered in the third quarter of last year. The deteriorating international trade position of the U.S. is best exhibited by the fact that the deficit for goods and services in 1983 was $8.3 billion for the year, following surpluses of $19 billion in 1982 and $28 billion in 1981. The 1984 trade deficit is estimated to be about $75 billion. The deterioration in our balance of payments situation is a result of record breaking merchandise trade deficits which are running at $130 billion in 1984, and are partially offset by surplus in the services sector.

What's Ahead - The composite index of leading indicators, designed to predict future movements in aggregate economic activity, increased 0.4 percent in September. The September increase followed three months of decline for this closely watched barometer of future economic activity. A further decline in the leading indicators would have been interpreted by many forecasters as a certain sign of an imminent slowdown in the economy. The three months of decline followed a record breaking 21 consecutive months of increases. The previous record was a 17 month period from March 1975 to July 1976 when the indicator had an unbroken string of gains.

American Workers Achieve High Productivity

American workers, along with American business have been greatly criticised for not being productive. According to their critics, they are no match for workers in other nations, such as Japan and West Germany. However, when one measures the output of each worker as a percentage of the nation's gross domestic product (the total value of all production that takes place within the nation), American workers, as a group, are the most productive in the world. The accompanying chart compares output per worker in seven OECD countries.

Based on the purchasing power of each worker's production, an American worker produces between six percent and 51.5 percent more than his counterpart in other major free-market economies. During the 1977-1980 period, productivity in the U.S. actually declined while that of other major industrial countries continued to increase, narrowing the output gap. However, since the current recovery began in the fourth quarter of 1982, productivity in the U.S. has increased by over five percent, surpassing the cummulative increase in U.S. worker productivity in the six previous years.

The challenge ahead appears to be whether American workers can continue to maintain their lead in outproducing workers in other countries. The current economic recovery shows that we are indeed supplying our workers with the necessary equipment to maintain and increase their productivity level. Investment during the current recovery has grown faster than in any other recovery since the end of the World War II. Much of the credit for this goes to the tax changes enacted by the Economic Recovery Tax Act of 1981 which provided incentives for work, savings and investment while slowing the growth of the share of income taken by government.

GROSS DOMESTIC PRODUCT PER EMPLOYED PERSON
(1983)

United States = 100

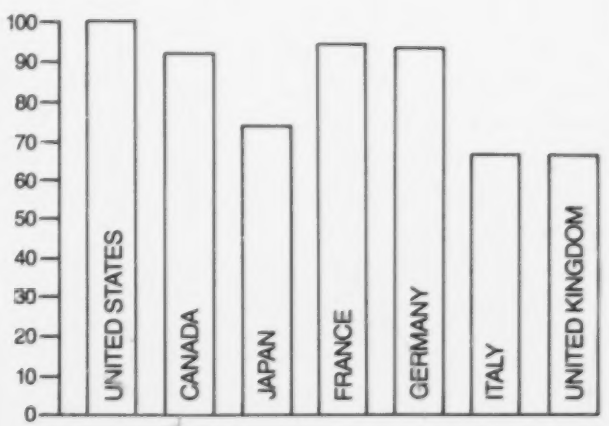


Chart by U.S. Chamber of Commerce
Data from U.S. Department of Labor

TABLE II
TRENDS IN COMMERCE

	Current Period		Previous Period	Year Ago	Percent Change From Previous Period	Percent Change From Year Ago
Population (Millions)	Aug/84	237.1	236.8	234.9	0.1	0.9
Gross National Product ($B) [a]	III/84	3,701.2	3,644.7	3,346.6	1.6	10.6
Gross National Product (72$B) [a]	III/84	1,649.6	1,638.8	1,550.2	0.7	6.4
Money Supply (M1) ($B) [a]	Sep/84	549.0	546.3	518.9	0.5	5.8
PEOPLE AND THEIR MONEY						
Personal Consumption Expenditures ($B) [a]	Sep/84	2,381.3	2,347.8	2,192.4	1.4	8.6
Personal Consumption Expenditures (72$B) [a]	Aug/84	1,058.5	1,064.8	1,014.8	-0.6	4.3
Disposable Personal Income ($B) [a]	Sep/84	2,624.6	2,602.8	2,386.1	0.8	10.0
Disposable Personal Income (72$) [a]	Aug/84	1,173.4	1,172.9	1,100.8	0.0	6.6
Personal Savings Rate (%)	Aug/84	6.3	6.1	5.0	0.2[b]	1.3[b]
Civilian Employment (millions) [a]	Oct/84	105.6	105.2	102.0	0.4	3.5
Civilian Unemployment Rate (%) [a]	Oct/84	7.4	7.4	8.7	0.0[b]	-1.3[b]
Average Hourly Earnings (77=100) [a]	Sep/84	161.7	160.6	156.2	0.7	3.5
Consumer Price Index (All Urban, 67=1.0)	Sep/84	3.1	3.1	3.0	0.4	4.2
Purchasing Power of the Dollar	Sep/84	0.3	0.3	0.3	-0.4	-4.0
Prime Interest Rate (%)	Oct/84	12.0	13.0	11.0	-1.0[b]	1.0[b]
Retail Sales ($) [a]	Sep/84	108.5	106.8	99.5	1.6	9.0
BUSINESS PROFITS AND OUPUT						
Nonfinancial Corporate Profits ($B)						
Before Tax	II/84	246.0	243.3	198.2	1.1	24.1
After Tax	II/84	150.2	150.6	123.4	-0.3	21.7
Industrial Production (67=100) [a]	Sep/84	165.1	166.1	153.8	-0.6	7.3
Capacity Utilization Rate (Mfg.) (%)	Sep.84	82.1	82.8	78.4	-0.7[b]	2.7[b]
New Housing Starts (thou units) [a]	Sep/84	1,676.0	1,539.0	1,679.0	8.9	-0.2
Net Business Formation (67=100)	Aug/84	117.9	115.3	114.4	2.3	3.1
New Business Incorporations (Thousands) [a]	Apr/84	53.9	53.4	48.9	1.0	10.3
BUSINESS COST						
Unit Labor Costs (nonfarm) (77=100) [a]	III/84	159.1	157.6	155.9	1.0	2.1
Unit Nonlabor Costs (77=100) [a]	II/84	152.3	152.5	151.7	-0.1	0.4
Producer Price Indices (67=100)						
Crude Materials [a]	Sep/84	327.0	327.2	328.8	-0.1	-0.5
Intermediate Goods [a]	Sep/84	320.1	320.5	315.3	-0.1	1.5
Finished Goods [a]	Sep/84	291.4	291.9	286.6	-0.2	1.7
FEDERAL SPENDING AND DEBT						
Federal Spending Index (67=100) [a]	Sep/84	521.0	530.8	469.1	-1.8	11.1
Fed. Gov't Debt Outstanding ($B)	Jun/84	1,517.2	1,501.7	1,324.3	1.0	14.6
INTERNATIONAL TRADE						
Exports of Goods & Services ($B) [a]	III/84	375.5	362.4	342.0	3.6	9.8
Imports of Goods & Services ($B) [a]	III/84	461.0	421.1	358.4	9.5	28.6
Balance on Goods & Services ($B) [a]	III/84	-85.5	-58.7	-16.4	45.7	421.3
WHAT'S AHEAD?						
Index of Leading Indicators (67=100)	Aug/84	164.5	163.7	158.9	0.5	3.5

NOTES: [a] Seasonally adjusted data
[b] Percentage point difference